DECLINING AUTONOMY :

RECENT TRENDS IN THE SCOTTISH ECONOMY

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Perhaps a central theme of debates over the Scottish economy has been the notion of the 'branch plant economy'. Ever since the 1960s commentators have pointed to the drift in ownership and control away from Scotland and towards England and America. Scottish manufacturing industry has increasingly become subject to decisions made outside of Scotland's borders, and it is therefore difficult to sustain any idea of distinctive and autonomously Scottish patterns of economic development. This trend towards declining autonomy is not a recent phenomenon but reaches back to the early days of Scottish industrialisation. What is significant about the post-war period is the rapidity with which autonomy has declined. This decline has continued apace in recent years and, most worryingly to many commentators, has begun to have consequences at the financial heart of the Scottish economy.

The Development of the Scottish Economy

Continuing into the 1960s the Scottish economy showed the legacy inherited from its early pattern of industrial development. As a junior partner to English industrialisation, Scotland evolved an economy focused around textiles and heavy industry. The competitive challenges of the late nineteenth century created particularly great problems for the producers of basic and standardised goods such as jute, cotton, and iron, though the relatively more specialised producers of steel and ships were able to maintain their prosperity through strategies of market differentiation. By the 1920s, however, these specialised producers found their overseas markets rapidly disappearing, and their difficulties exacerbated the problems faced by the producers of basic goods.[1] By this time the major business enterprises had become locked together into a system of 'big business' which gave birth to a group of established business dynasties and prominent capitalists who dominated the Scottish economy.[2] Sitting on the boards of the major banks, investment trusts, and industrial companies such men as Lithgow, Bilsland, and Weir were the key figures in various attempts to restructure Scottish heavy industry in the inter-war years.

These attempts had limited success, and they failed to come to grips with the wider issue of altering the dependence of Scottish economic activity on a declining base of heavy industry. Such change as occurred in the post-war period was essentially piecemeal and was associated with a continuing transfer of ownership and control to England. Under regional development policies aimed at improving the economy's employment and earnings record, Scotland received over 30 per cent of all central government regional aid in the period from 1960 to 1972. Although this did little to improve the situation, it perhaps prevented matters from getting any worse. Heavy industry continued to decline, and this structured the whole development of the Scottish economy over this period. From the late 1960s some improvement in employment prospects took place as multinational enterprises moved into Scotland and began to diversify the industrial base. This improvement, however, had its price: 59 per cent of manufacturing employment in 1973 was in plants owned from outside Scotland. This drift towards a branch plant economy meant that the largest plants and the fastest growing industries (electronics, chemicals, vehicles) were dominated by non-Scottish firms. More and more of the key decisions concerning Scotland's industry were being made outside of Scotland.[3]

By the mid-1970s this relative improvement in the Scottish economy had hastened in pace as a result of the oil and gas discoveries in the North Sea. The oil industry required a massive inflow of capital and it stimulated domestic financial institutions, but doubts were expressed as to whether the industry would have sufficient long-term impact to help resolve the problems of the Clydeside region. Interlinked with this was an extensive public debate over the economic viability of a politically independent Scotland. The SNP slogan

'It's Scotland's Oil' expressed both the optimism and the pessimism of the period: optimism that control over the oil resources would create a viable Scottish economy, and pessimism that this potential would be frittered away by the Westminster government.

By the late 1970s much of the economic and political optimism had evaporated. It had come to be realised that oil alone could not correct the structural imbalances of the Scottish economy. And the depression in the British economy and world trade from 1976 meant that there was less scope for outside firms to continue investing. Even the widely-acclaimed investment activities of the Scottish Development Authority failed to prevent a series of closures and job losses in West and Central Scotland. The impact of oil in Edinburgh, Tayside, and the North East, and the continuing decline of heavy industry exacerbated the long-standing split between East and West in Scotland, though some commentators were expressing the view that the decline of heavy industry made Scotland accord with the 'slimmer-but-fitter' ideal of the Conservative government. 'De-industrialisation' - a reduced significance for heavy industry and a thriving financial services sector - meant that Scotland might be well placed to come out of the recession more rapidly than the rest of Britain. Such a prognosis, of course, presumed that the recession would soon be over, and that Scotland would have the economic autonomy to take advantage of this. On the available evidence such prospects seem bleak. Even if the depression should end sooner rather than later, there are important underlying trends which are destroying the capacity to evolve an autonomous response. These trends can be documented in the three key economic sectors of manufacturing, oil and finance.

Manufacturing Industry

As has been shown above, the manufacturing sector has been the focus of the shift towards a branch plant economy. The major heavy industries of Scotland were nationalised after the second world war and by the Labour governments of the 1960s and 1970s. Coal was nationalised in 1946, steel in 1965, and shipbuilding in 1978. Control in each of these concerns has been removed from the major interests in the Scottish economy, and decisions over the closure of pits, works, and yards are taken without explicit consideration of their implications for the Scottish economy. British Steel's complex reorganisation plans have important implications for its Scottish operations, and these problems have been exacerbated by the fact that the decline of Scottish heavy industry has led to Scottish steel being exported to the South: the Scottish works are now more vulnerable to closure because of the extra expense of transporting their products to where they are needed. British Shipbuilders continues to face a problem of lack of orders in the face of competition from Japan. The Corporation has also been beset by uncertainties over proposals to 'privatise' parts of its operations. The Conservative government introduced plans to denationalise the naval yards (which include the former Yarrow yard) but withdrew these plans twice, only to reintroduce them at a time when its own defence expenditure review had made the naval yards a less appealing prospect for private investors.

Other major sectors of Scottish industry have experienced English and foreign takeovers in recent years. In food and drink production two major companies have been taken-over and one narrowly escaped: Robertson Foods was taken over by Avana, and Belhaven Brewery (formerly CCH Investments) was acquired by Eric 'Miss World' Morley in 1980. Although Highland Distilleries was threatened with a takeover bid from Hiram Walker of Canada, this was blocked by the government following a negative Monopolies Commission report. Anderson Strathclyde, the mining equipment manufacturer, had 28 per cent of its shares acquired by Charter Consolidated in 1980. Charter is the London end of Harry Openheimer's South African gold and diamond business and claimed to be buying Anderson's shares simply in order to prevent another group from taking control. In 1982, however, Charter launched a full-scale bid of its own and the fate of Anderson Strathclyde now depends upon a report from the Monopolies Commission. In textiles, Lindustries has been acquired by Hanson Trust, and in retail distribution House of Fraser continues its struggle with Lonrho. Outside ownership does not only have implications for decision-making and control, but also has important consequences for job losses and plant closures. The Linwood car plant, for example, had been set up by the English Rootes Group, which was later taken over by the American Chrysler Corporation. Following problems at its parent company the European interests of Chrysler were taken-over by the Peugeot-Citroen Group, which has renamed the group Talbot

and has closed the Linwood plant. Job losses on a large-scale have also occurred with the closure of the Singer plant and with cut-backs by BL at Bathgate.

The recent problems at the Weir Group raised the spectre of massive job losses in its pump and desalination plants. Weir's problems began in 1979, and the following year saw extensive management changes and the loss of 3,000 jobs. Because the difficulties continued the company's bankers (primarily the Royal Bank and the Finance Corporation for Industry) consulted the SDA and initiated a major reconstruction. Perhaps the most visible sign of change was that Lord Weir was replaced as chairman by Sir Francis Tombs, formerly the chairman of the Electricity Council and currently a director of the Rothschild merchant bank. The Weir family shareholdings were also reduced in order to release capital for the family to take up their rights in the new convertible preference shares which were issued to replace the loan capital. Although this could be seen as a sign of faith by the family in the future of the company, it is unclear what proportion of the shares they will hold after the new shares are converted into voting ordinary shares. A further complication was that a majority of the new convertible shares were taken up by Jacob Rothschild's RIT and its associates. This deal would eventually give RIT 36 per cent of the votes in the company. Rothschild's view of Weir as a 'recovery situation'has been borne out by recent events at Weir, and it is perhaps likely that RIT will seek to become actively involved in the running of the company.

The manufacturing base of the Scottish economy has experienced a continual erosion of Scottish control. As the industrial base has moved away from heavy industry to a more diversified structure, so outside ownership and control has become of greater significance. It is for this reason that so much faith was pinned on oil: if oil developments could be shaped by the thriving financial sector, then some of the worst features of the branch plant economy might be avoided.

North Sea Oil

Until the 1970s, 'Scottish Oil' meant Burmah Oil. Although domestic oil production began in the nineteenth century with the commercial exploitation of shale oil, the main area of involvement of

Scottish capital in the oil industry was investment in Burmah's far and middle eastern operations. Apart from this and the shale oil (eventually taken over by BP) there was only a small company, Premier Consolidated, operating in the Trinidad oilfields. The recent explorations in the North Sea began in 1964 and the first Scottish oil was discovered in 1969, although oil did not actually begin to flow into Scotland on a commercial scale until 1975. Much emphasis was placed upon the impact which it was hoped the oil industry would have on Scottish employment. The main areas of employment associated with oil were in the exploration and development of fields, in rig and platform construction, in supply and service, and in associated engineering works such as those shipbuilders which might be able to produce supply vessels or to convert to rig and platform building. Not the least important aspect of this impact was the disruption it brought or threatened to the Scottish countryside. The planned and built construction yards and refineries have generated a massive mobilisation of environmental groups and have led to major public inquiries. This has made the names of many such areas into household words: Nigg Bay, Dunnett Bay, Portavadie, Ardyne Point, Moss Moran, and Drumbuie. The main employment impact has been in the North East, though much hope has been held out for the economic development of Tayside. The main impact on the West of Scotland has perhaps been that those who have migrated from here in search of work have been more likely to travel to other parts of Scotland than they were to follow the time-worn path to the South. But the oil industry has not been a simple success story. Oil cannot be isolated from wider trends in the world economy, and overcapacity in rig and platform production has created many redundancies.

Initially it was expected that Burmah Oil would play a leading role in the development of Scottish oil, but these expectations were rudely shattered by the collapse of Burmah in 1974. Until the 1960s, Burmah had been largely dependent upon its shareholdings in BP and Shell, but in 1962 it began to build up its own production base and to diversify its activities. Successful bids for Castrol, Rawlplug, Halfords, and other companies led it into chemicals, industrial products, car components and engineering. In 1973 it took the major step of taking-over the American Signal Oil and Gas Company. Major losses

in its tanker division, however, led to the need for a complete financial and managerial reorganisation in 1974 and 1975. As part of the government-sponsored rescue operation the Signal interests had to be sold, and most of Burmah's North Sea interests were transferred to the newly formed British National Oil Corporation. It was not until 1981 that Burmah could truly be regarded as a healthy company once more, as it began to move back into the North Sea and launched an unsuccessful take-over bid for the large chemicals group of Croda.

The difficulties of Burmah led to a declining role for Scottish interests in running the Company (the Head Office had already been moved from Glasgow to Swindon), but its enforced withdrawal from the North Sea perhaps opened-up new possibilities for the smaller Scottish oil companies which had already begun to spring up. A number of these companies were simply exploration syndicates formed by investment groups, mirroring the origins of Burmah itself, but some aimed from the beginning at becoming fully integrated oil companies. Perhaps the most successful of these companies has been London and Scottish Marine Oil, formed by the London stockbrokers Cazenove with a syndicate of Scottish investment interests holding 37 per cent of the capital. LSMO rapidly became a major force in Scottish oil: in 1976 it took over Bates Oil Corporation (formerly run by Ivory and Sime), in 1977 it acquired its sister company Scottish Canadian Oil and Transport, and in 1977 it acquired Oil Exploration. LSMO has its main production interests in the Ninian oil field and the Hewett gas field, but it has numerous participations in exploration groups. The company has always been based in London and although Ivory and Sime continue to be associated with the firm it has lost much of whatever Scottish character it originally had.

The Ivory and Sime group, together with Noble Grossart, were also associated with a number of exploration investment companies. Through its banking company Ivory and Sime formed Caledonian Offshore and Viking Oil a large proportion of their shares being taken by Ivory and Sime and other Scottish investment groups. Noble Grossart formed Pict Petroleum and Caber Oil, selling many of the shares to Scottish investors. Although Viking was acquired by the American Sun Oil group in 1980, most of these companies retain close links to their Scottish promoters. Their involvement in the oil industry has, however, been essentially a passive investment role. Nor have their successes been particularly significant: Pict, for example, continues its long association with the French Elf and Total groups, but has not so far made a big oil strike.

This exclusion - or withdrawal - of Scottish investment interests from active involvement in oil production is brought out also in the histories of the two remaining 'Scottish' oil companies. Premier Consolidated, which has had little success in the North Sea, has long been owned and controlled from London; and this was reinforced when it merged with the Ball and Collins group in 1977. Premier has little or no Scottish character left to it. Clyde Petroleum was set up by London merchant bankers Singer and Friedlander, but the majority of its shares were sold to Glasgow investment interests when it was formed. Clyde remains an important force in Scottish oil and moved onto oil production in 1981, so adopting a much more integrated form. Whereas LSMO moved from production to exploration (via the acquisition of Oil Exploration), Clyde has followed the opposite pattern.

Such changes as have occurred in Scottish control over oil exploration and production companies are overshadowed by the implications of the establishment of the British National Oil Corporation. BNOC was set up in 1975 as a Glasgow-based government agency which was to take participations in exploration and production consortiums and was to market oil produced in the UK sector through its right to buy up to 51 per cent of all crude oil produced in the sector. The BNOC took over the oil interests of the Coal Board and was soon involved in the Burmah rescue plan, taking over Burmah's North Sea holdings. Although having its headquarters in Glasgow, the main board of BNOC has not been recruited from within Scotland. After an internal row Lord Kearton was succeeded as Chairman and Chief Executive by Philip Shelbourne, formerly of the Midland Bank's merchant banking division. Another director followed Shelbourne from the Midland group, and N.M. Rothschild, where Shelbourne had previously worked, were appointed as advisers to BNOC. The Conservative government has proposed a partial 'privatisation' of its operations. Initially privatisation was envisaged as involving the sale of shares in the Corporation itself, but this plan has subsequently been modi-

fied. The trades unions representatives on the BNOC board are opposed to privatisation, and the Labour Party has pledged itself to re-nationalisation if it is ever returned to power. Shelbourne himself is in favour of privatisation, but not necessarily in the form currently envisaged by the government. The plan involves a separation of the Corporation's trading and exploration activities, with the non-trading operations being formed into a new subsidiary (Britoil) which would have 51 per cent of its shares sold through the stock exchange. BNOC itself would retain its crude oil marketing operations - it currently handles 60 per cent of all oil produced in British waters. BNOC, therefore, is not part of the established Scottish business system, the Edinburgh and Glasgow investment interests having little influence over its affairs. It is unlikely that privatisation would make any difference in this respect.

The Financial Sector

A key role in maintaining a distinctively Scottish economy has been played by the companies of the financial sector. In particular, the three clearing banks have acted as foci for the coordination of the affairs of Scotland's major companies. This is not to say that they have consciously and deliberately planned an autonomous 'Scottish' strategy of economic development - far from it. The banks have recruited their directors from the major industrial and investment interests in Scotland and have, in turn, constituted a virtual 'clearing house' for non-executive directors. The banks function as forums in which business information can be accumulated and a broad perspective on Scottish affairs can be taken; the interlocking directorships focused around the banks enable this information and perspective to be disseminated throughout the economy. As a result, it has always made sense to talk about 'Scottish' companies and a 'Scottish' economy.

Each bank has, however, its own distinctive features. The Clydesdale - the smallest of the three - maintains most of its links with the Glasgow and Aberdeen regions and operates very much within the framework of its London parent, the Midland Bank. It has become involved in oil mainly through the on-shore support businesses, but it has not attempted to move overseas, or even into England. By contrast, the Bank of Scotland, of which Barclays owns 35 per cent, set up a specialised oil division, helped to form the International Energy Bank, has taken shareholdings in oil-related businesses and has expanded the scope of its banking operations. In particular it has been expanding its number of branches in England, and has been seeking an entry into American retail banking.

The Royal Bank of Scotland is Scotland's biggest bank with just over a half of the nation's banking business. It has not only become heavily involved in oil but has expanded overseas, especially in Hong Kong, Singapore, and Indonesia. It was towards the end of 1980 that events at the Royal Bank threw the whole Scottish financial system into a panic. Lloyds Bank, which owns 16 per cent of the Royal intimated an interest in acquiring the balance of the Royal Bank capital. The directors of the Royal rejected this as a threat to the Bank's identity and began to look for a merger partner that would prevent a Lloyd's take-over and maintain the Royal's autonomy. It found this partner in the Standard and Chartered Bank, whose search for a British base complemented the Royal Bank's search for overseas operations. In the midst of these negotiations, however, a counter-bid came from the Hong Kong and Shanghai Bank. This bid was rejected by the Royal's directors - rather paradoxically in view of the long and close relationship which had existed between the Royal Bank and Jardine Matheson, a close associate of the Hong Kong Bank. There are already plans to integrate the Royal Bank branch network fully with the English network of its Williams and Glyns subsidiary, and many people in the Scottish business community felt that the merger with the Standard and Chartered Bank would shift the group's centre of gravity even further to the south. The great panic which was felt about the bids reflected a wider concern over the declining autonomy of the Scottish economy. It was recognised that Scotland had drifted towards being simply a branch plant economy, and the possible loss of the Royal Bank was seen as a further, and irrevocable, step in this direction. The loss of the Royal Bank, it was felt, would have struck at the heart of the Edinburgh financial system, which had at least retained a certain autonomy in the face of the drift towards the branch plant economy. In the event, the Monopolies Commission agreed with this viewpoint and the proposed mergers were refused. Uncertainty remains, however, about how long the Royal Bank can re-

tain its autonomy.

Merchant banking and the investment trust movement have always been closely linked in Scotland, and the major investment groups are at the heart of the financial establishment. Scotland has traditionally been the main focus of investment management in Britain, and there are currently about a dozen very active groups operating mainly from Edinburgh and Glasgow. A major trend since the 1960s has been for trusts to be more closely coordinated into particular investment groups, and all the main groups are now tending to convert their trusts into more specialised investment vehicles. Pension funds and insurance companies, which have grown massively in importance during the 1970s, increasingly want to carry out their own general investment, and therefore prefer to avoid investing in the old-style general investment trust. As a result, trusts are increasingly specialising in Japan, the USA, energy, high technology, and so forth in order to meet those specialist investment needs which the big institutions cannot meet through their own 'in-house' operations. Those trusts which do not follow this path tend to become prime candidates for take-overs or unitisation. For example, Edinburgh Fund Managers, Murray Johnstone and Baillie Gifford have all begun to follow the path of specialisation, whilst Stewart Fund Managers have partly unitized their Scottish European Investment Trust. The Edinburgh Investment Trust hopes to avoid this by expanding its role as an actively managed general trust which would meet the needs of non-institutional investers and smaller institutions. In the sphere of take-overs, British investment was acquired by the National Coal Board pension fund, and Edinburgh and Dundee by British Rail pensions. In both these cases the pension schemes were seeking access to general investment portfolios as a rapid way of building-up their own in-house expertise.

Perhaps the most significant investment trust takeovers have been those brought about by the RIT group. Following a long family dispute, Jacob Rothschild split-off from the main Rothschild family banking business and used Rothschild Investment Trust (now RIT) as the vehicle for building up a substantial financial group. With backing from the American Saul Steinberg's Reliance Group, RIT expanded into merchant banking, insurance, investment, and unit trusts. Apart from its move into the Weir Group, discussed above, RIT has become involved with two Scottish investment trsuts. In 1981 it completely reorganised Ailsa Investment Trust, putting in David Montagu as the new chairman. The following year RIT made its biggest ever deal when Jacob Rothschild engineered a reverse take-over of the Great Northern Investment Trust of Glasgow: Great Northern, one of Britain's largest trusts, nominally acquired RIT, but effectively Rothschild acquired control of a much larger group. The trust has changed its name to RIT and Northern under the joint chairmanship of Jacob Rothschild and Lord Weir, but few can doubt that the name and the chair will soon reflect Rothschild dominance.

Undoubtedly the most active investment group in recent years has been Ivory and Sime, Scotland's largest such group. Following problems with some of its large investments (Edward Bates, Welfare Insurance, and HawPar) it has begun to restructure some of its activities. Each of its trusts follows a specific investment policy and it has built up its list of private and pension clients. Ivory and Sime has always been an active investment group and Atlantic Assets has been used more as a holding company than an investment trust. It has cross-shareholdings with other trusts in the group as well as stakes in associated companies. Until 1981 Atlantic held 25 per cent of the Save and Prosper Unit Trust group. This holding was sold to the Robert Fleming merchant bank in London. Much of Ivory and Sime's involvement in oil has been in association with the merchant bankers Noble Grossart.

Until the end of the 1960's merchant banking hardly existed, but the sector experienced a massive growth following the oil and gas discoveries. Morgan Grenfell, Slater Walker, Hill Samuel, and various foreign banks all set up offices in Scotland, and from within Scotland the Finlay group and the Bank of Scotland branched out into merchant banking. Noble Grossart represented a totally new and totally Scottish development in merchant banking, being originally backed by Angus Grossart, Sir Hugh Fraser, and the Stenhouse group. In close partnership with Ivory and Sime, Noble Grossart has formed a number of oil and oil investment companies and has recently been expanding into the Middle East. Despite a few problems in 1980 when the institutional shareholders in its oil investment company North Sea Assets imposed a moratorium on new investments, the group has

continued to prosper and a successful flotation of North Sea Assets was made in 1981.

Today, merchant banking in Scotland is dominated by Noble Grossart and the British Linen Bank. Although merchant banking has retained a great deal of autonomy within Scotland it cannot be seen as immune to the trend towards outside ownership and control. The British Linen Bank is a subsidiary of the Bank of Scotland, and there is the ever-present possibility that Barclays will increase its hold over the Bank. The relative lack of success of the Royal Bank in merchant banking has fuelled rumours that it intends to make a bid for Noble Grossart; such a merger would make the Royal Bank an even more attractive target for a take-over bid.

Conclusion: Prospects for the Future

Scotland's economy is losing its distinctiveness. The old heavy industries no longer predominate as the industrial structure becomes more diversified. The associated changes in ownership and control have led to declining autonomy as the Scottish economy becomes more closely integrated into the British and wider world economy. Scotland is becoming simply a 'region'. But Scottish finance has not become so closely tied to the British economy and remains relatively prosperous. The problem of the financial sector is that it has prospered in association with the internationalisation of the Scottish economy. Paradoxically, the branch plant manufacturing economy has bolstered the autonomous Scottish financial system. This is particularly clear in oil, where merchant banking and investment management have grown in response to the needs of the incoming businesses. The very prosperity of Scottish finance reflects the external orientation of the economy. Although the Scottish clearing banks have always maintained close links to Scottish manufacturing industry, the decline of the latter has forced them to concentrate more of their attention on the wider British economy and to become more concerned to enter into close relations with the externally-orientated merchant banking sector. The autonomy of the Scottish economy has always been allied to the prominent role played by Scotland's distinctive banking system. If the banking system becomes subject to a greater degree of outside ownership and control, this may have even more far-reaching consequences than the drift towards branch plant manufacturing.

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